Luxembourg Tax Highlights for 2024

This Tax Alert aims to provide you with a short summary of the tax highlights that will be effective as from year 2024.

1. Luxembourg implementation of Pillar 2

December 20, the Luxembourg Parliament approved the draft law n. 8292 by which the EU Pillar Two Directive 2022/2523 of 15 December 2022, is implemented. The new law introduces three new rules: i) the income inclusion rule or IIR, ii) a qualified domestic minimum top-up tax or QDMTT and iii) the undertaxed profits rule or UTPR, which result in three new taxes aiming to ensure a global minimum effective tax rate of 15% for multinational and domestic groups with annual consolidated revenue of at least EUR 750 million. The new rules will apply for fiscal years starting on or after 31 December 2023. Please note that on December 18, 2023 the OECD released the third set of administrative guidance to clarify the application of the Pillar 2 rules, including but not limited to the definition of consolidated revenue threshold.

2. New Investment Tax Credit

December 19, the Luxembourg Parliament approved the draft law n. 8296 by which a new investment tax credit is effective as from 2024 tax year in order to promote digital and ecological and/or energetic transformation. Key changes include inclusion of certain operating expenses connected with the digital/ecological transformation on which a new 18% tax credit may apply (“DET tax credit”). For investments in tangible depreciable assets, the DET tax credit is limited to 6% considering that such assets are expected to benefit from the amended global investment tax credit at 12% and hence, reaching an overall tax credit of 18%.

3. New UK- Luxembourg Double Tax Treaty

Considering that both contracting States exchanged ratified instruments, the new tax treaty is expected to enter into force for Luxembourg tax purposes as from January 1, 2024. For UK tax purposes, provisions on withholding tax (WHT) will be effective on income derived on or after 1 January, 2024 whereas provisions on income tax and capital gain tax (CGT) will be effective for any year of assessment beginning on or after 6 April, 2024. The new treaty brings substantial changes particularly in tax residency rules, exemption on WHT on dividends and royalties, CGT on “land-rich companies”, collective investment vehicles.

4. Personal income tax

Starting January 1, 2024, the personal income brackets will be adjusted considering the last four cost of living indexations and the former adjustment brackets approved in 2023. Depending on the level of income and tax class, this may result in a tax decrease.

5. VAT updates

VAT rates increase
The temporary decrease by 1% to the VAT rates of 16%, 13% and 7% ends on 31 December 2023. Therefore, as of 1 January 2024, Luxembourg will revert to its VAT rates of 17%, 14%, 8% and 3%.

Director fees not subject to VAT
Following the recent judgment (C-288/22) by the Court of Justice of the European Union on December 21, 2023, the Luxembourg VAT authorities have swiftly responded by issuing Circular 781-1 which announces the suspension of Circular 781 of 2016, until the Luxembourg District Court's final decision.

As per their official statement on the website, the Luxembourg VAT authorities are committed to adjusting the VAT for board members once the upcoming national Court decision is released, all while adhering to the statute of limitations. After the national court decision, a comprehensive guideline should be provided to assist companies in correctly adjusting their deduction rights for board member invoices. Non-compliance could result in legal penalties.

Extension of reverse-charge-mechanism to combat VAT fraud
December 22, draft law n. 8339 was approved expanding the scope of the Luxembourg reverse charge mechanism to transactions exceeding a remuneration of 10,000 EUR including supplies of mobile phones, integrated circuits such as microprocessors and central processing units, game consoles, tablet computers, laptops and headphones as well as raw or semi-finished metals. The extension applies as from 1 January 2024.

New reporting obligation for PSPs to combat e-commerce VAT fraud (CESOP)
As from January 1, 2024, EU payment service providers (PSP) such as banks, electronic money institutions and other regulated payment institutions are obliged to transmit information regarding cross-border payments. The reported data will be centralized in the new European database called CESOP (Central Electronic System of Payment information), where it will be stored, aggregated, and cross-

checked with other European databases. The consolidated information in CESOP will be accessible to anti-fraud experts from Member States through the Eurofisc network. The 1st transmission of transaction files by PSPs to the tax authorities must take place before the end of April 2024.

6. DAC 7

In their newsletter of 22 December 2023, the Direct Tax Administration informed Platform Operators that the pre-validation environment and the procedure for declaring information relating to declarable vendors will be operational after 15 January 2024.

The deadline for submitting declarations will therefore exceptionally be extended to 31 January 2024. Platform Operators will have one month to file their declarations. This period will only begin to run from the date of official availability of the above-mentioned procedures.

For further information, please do not hesitate to contact one of our team members who will be glad to assist you at any time:

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